

**FLINT HILLS AREA TRANSPORTATION AGENCY, INC.**

Manhattan, Kansas

**FINANCIAL STATEMENTS**

**WITH**

**INDEPENDENT AUDITOR'S REPORT**

June 30, 2013

VARNEY & ASSOCIATES, CPAs, LLC  
Manhattan, Kansas

**FLINT HILLS AREA TRANSPORTATION AGENCY, INC.**  
Manhattan, Kansas  
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January 21, 2014

Board of Directors  
Flint Hills Area Transportation Agency, Inc.  
Manhattan, Kansas

### **Independent Auditor's Report**

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Flint Hills Area Transportation Agency, Inc. (the Agency), a non-profit organization, which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

#### **Management's Responsibility for the Financial Statements**

The Commission's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Flint Hills Area Transportation Agency, Inc., as of June 30, 2013, and the changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

January 21, 2014

Flint Hills Area Transportation Agency, Inc.  
(Continued)

#### **Other Matters**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated January 21, 2014, on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Varney & Associates, CPAs, LLC*

Certified Public Accountants

**FLINT HILLS AREA TRANSPORTATION AGENCY, INC.**  
 Manhattan, Kansas  
**STATEMENT OF FINANCIAL POSITION**  
 June 30, 2013

**Financial Statements**

**ASSETS**

**Current Assets**

Cash and cash equivalents	\$ 221,380
Grants receivable	817,290
Service contracts receivable	44,842
Rider fees receivable	1,271
Sales tax refund receivable	21,605
Inventory	7,542
<b>Total Current Assets</b>	<b>\$ 1,113,930</b>

**Non-Current Assets**

Unrestricted capital assets	
Equipment and furniture	\$ 12,094
IT Equipment and software	2,000
Vehicles and related equipment	101,156
Building and maintenance equipment	375
Accumulated depreciation	(64,434)
<b>Total unrestricted capital assets</b>	<b>\$ 51,191</b>

Restricted capital assets

Vehicle equipment	\$ 61,500
Vehicles	784,029
Bus stops and signs	11,171
Construction in progress	1,896,701
Accumulated depreciation	(430,880)
<b>Total restricted capital assets</b>	<b>\$ 2,322,521</b>

**Total Non-Current Assets**

**\$ 2,373,712**

**TOTAL ASSETS**

**\$ 3,487,642**

**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Accounts payable	\$ 679,109
Payroll taxes payable	813
Line of Credit	49,930
Note payable due to City of Manhattan, Kansas	50,000
Note payable due to Riley County, Kansas	50,000
<b>Total Current Liabilities</b>	<b>\$ 829,852</b>

**Net Assets**

Unrestricted	
Undesignated	\$ 319,429
Designated for bus replacement	82,866
<b>Total Unrestricted</b>	<b>\$ 402,295</b>
Temporarily Restricted	2,255,495
<b>Total Net Assets</b>	<b>\$ 2,657,790</b>

**TOTAL LIABILITIES AND NET ASSETS**

**\$ 3,487,642**

The accompanying notes are an integral part of these financial statements.  
 See Independent Auditor's Report.

**FLINT HILLS AREA TRANSPORTATION AGENCY, INC.**  
 Manhattan, Kansas  
**STATEMENT OF ACTIVITIES**  
 For the Year Ended June 30, 2013

**Financial Statements**

	<u>Unrestricted</u>	<u>Temp Restricted</u>	<u>Total</u>
<b>Revenues</b>			
Rider income	\$ 114,160	\$ -	\$ 114,160
Grants	749,188	1,795,879	2,545,067
Contracts	527,523		527,523
Donations	3,661	-	3,661
Contributed facilities and equipment	6,400	-	6,400
Interest income	1,104	-	1,104
Advertising income	660	-	660
Gain/Loss on sale of assets	-	-	-
Net assets released from restriction	148,428	(148,428)	-
<b>Total Revenues</b>	<u>\$ 1,551,124</u>	<u>\$ 1,647,451</u>	<u>\$ 3,198,575</u>
<b>Expenses</b>			
Wages and salaries	\$ 768,236	\$ -	\$ 768,236
Telephone	81,668	-	81,668
Office supplies	17,207	-	17,207
Advertising	2,976	-	2,976
Bus	23,688	-	23,688
Insurance	332,778	-	332,778
Travel and meal	2,091	-	2,091
Financial	2,552	-	2,552
Licenses and fees	28,104	-	28,104
Facilities	8,022	-	8,022
Depreciation	168,167	-	168,167
<b>Total Expenses</b>	<u>\$ 1,435,489</u>	<u>\$ -</u>	<u>\$ 1,435,489</u>
<b>CHANGE IN NET ASSETS</b>	\$ 115,635	\$ 1,647,451	\$ 1,763,086
<b>NET ASSETS - BEGINNING OF PERIOD</b>	<u>286,660</u>	<u>608,044</u>	<u>894,704</u>
<b>NET ASSETS - END OF PERIOD</b>	<u><u>\$ 402,295</u></u>	<u><u>\$ 2,255,495</u></u>	<u><u>\$ 2,657,790</u></u>

**FLINT HILLS AREA TRANSPORTATION AGENCY, INC.**

Manhattan, Kansas

**STATEMENT OF CASH FLOWS**

For the Year Ended June 30, 2013

*Financial Statements*

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from rider fees	\$ 117,188
Cash received from grantors	1,906,880
Cash received from service contracts	490,938
Cash received from donations	3,661
Cash received from interest earned on deposits	1,104
Cash received from advertising	660
Cash paid to employees	(710,816)
Cash paid for employer taxes	(61,424)
Cash paid to vendors, suppliers and contractors	(414,824)
Cash paid for inventorable items	(2,846)
Cash paid for interest on borrowings	(1,241)
Cash paid for reimbursable sales taxes	(4,131)
Cash paid for income taxes	-
<b>Cash Provided by Operating Activities</b>	<u>\$ 1,325,149</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Cash paid for unrestricted property and equipment	\$ (16,051)
Cash paid for restricted property and equipment	(1,317,945)
<b>Cash Used in Investing Activities</b>	<u>\$ (1,333,996)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Cash received from line of credit	\$ 29,930
Cash paid on line of credit	(10,000)
<b>Cash Provided by Financing Activities</b>	<u>\$ 19,930</u>

**NET INCREASE (DECREASE) IN CASH**

\$ 11,083

**CASH AND CASH EQUIVALENTS - BEGINNING**

210,297

**CASH AND CASH EQUIVALENTS - ENDING**

\$ 221,380

**FLINT HILLS AREA TRANSPORTATION AGENCY, INC.**  
 Manhattan, Kansas  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
 For the Year Ended June 30, 2013

**Financial Statements**

**Reconciliation of change in net assets to net cash provided  
 by operating activities:**

Change in net assets	\$ 1,763,086
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Adjustments to reconcile change in net assets to net  
 cash provided by operating activities:

Depreciation expense	\$ 168,167
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Changes in operating assets and liabilities

Grants receivable	(642,244)
Contracts receivable	(36,586)
Rider fee receivables	3,027
Sales tax refund receivable	(3,610)
KDOT retainage receivable	4,058
Inventory	(2,846)
Accounts payable	76,101
Payroll taxes payable	(4,004)
<b>Total Adjustments</b>	<u>\$ (437,937)</u>

<b>Net Cash Provided by Operating Activities</b>	<u><u>\$ 1,325,149</u></u>
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**FLINT HILLS AREA TRANSPORTATION AGENCY, INC.**

Manhattan, Kansas

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2013

*Notes to Financial Statements*

**Note 1: Significant Accounting Policies**

**Organization**

Flint Hills Area Transportation Agency, Inc. (the Agency), was organized as a non-profit corporation in 1976, originally to provide low-cost transportation services to elderly and disabled individuals throughout the area of Riley County, Kansas. In 2011, services were expanded to the areas of Geary County, Fort Riley, and Pottawatomie County, as well as fixed-route services in the City of Manhattan, Kansas.

**Basis of Accounting**

The financial statements are prepared using the accrual basis of accounting and the financial reporting provisions of accounting principles generally accepted in the United States of America as prescribed by the Financial Accounting Standards Board.

**Cash and Cash Equivalents**

Cash includes all deposits in the bank and highly liquid investments with original maturities of three months or less. The carrying value of cash approximates fair value because of the short maturities of those financial instruments.

**Grants Receivable and Revenue Recognition**

Grants receivable consist of amounts due from third party grantors for reimbursement of qualifying grant award costs. Revenues are recognized when qualifying reimbursable costs are incurred. Management has evaluated the collectability of the receivable amount at June 30, 2013 and estimates that the entire amount is fully collectible with no reserve for the allowance of doubtful accounts.

**Service Contracts Receivable and Revenue Recognition**

Service contracts (local match) receivable consists of amounts due from third parties for which the Agency has agreed to provide transportation services which include fixed routes, demand response (local and regional), as well as special services, all which remain open to the public. Revenues are recognized when the Agency has provided the requisite services. Management has evaluated the collectability of the receivable amount at June 30, 2013 and estimates that the entire amount is fully collectible with no reserve for the allowance of doubtful accounts.

**Sales Tax Refund Receivable**

Sales tax refunds receivable consist of amounts due from the State of Kansas as reimbursement for sales taxes paid by the Agency on behalf of local and state governmental entities. Management has evaluated the collectability of the receivable amount at June 30, 2013 and estimates that the entire amount is fully collectible with no reserve for the allowance of doubtful accounts.

**Inventory**

Inventory consists of amounts paid for consumable supplies and materials of which the Agency maintains an available store. The Agency uses the first-in, first-out method of expensing inventoriable items and reports the inventory balance as the lower of cost or market value.

**FLINT HILLS AREA TRANSPORTATION AGENCY, INC.**  
 Manhattan, Kansas  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2013

**Note 1: Significant Accounting Policies (Continued)**

**Capital Assets**

The cost of property and equipment purchases are capitalized at historical cost. The cost of major renewals and betterments that extend the lives of property and equipment are also capitalized. When assets are retired or otherwise disposed of, the assets and related accumulated depreciation are reduced and any resulting gain or loss is recognized as a change in the net assets in the period of disposal. The cost of maintenance and repairs is expensed as incurred.

Restricted capital assets are those items of property and equipment which have been purchased under cost sharing grants and agreements with state and federal governments who maintain a reversionary interest in which the governmental entity ultimately controls the use of and disposal of the asset.

Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Property Classification</u>	<u>Useful Lives (Years)</u>
Equipment and furniture	3 - 5
IT Equipment and software	5
Vehicles and related equipment	5 - 7
Building and maintenance equipment	10
Bus stops and signs	10

**Net Assets**

The Agency reports the changes in its financial position according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets represents the amount of resources which are available for current uses. Temporarily restricted net assets are cash or other assets received with a donor-imposed restriction that limits their use to a specific purpose or period of time. Permanently restricted net assets are cash or other assets received with a donor-imposed restriction that requires the Agency to hold the asset in perpetuity.

For the year ended June 30, 2013, there were no permanently restricted net assets, or changes thereof.

**Advertising**

The Agency's advertising costs are expensed as incurred and are separately reported on the statements of activities.

**Income Taxes**

The Agency qualifies as tax-exempt under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for income taxes.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10-05 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. This topic prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This topic also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Agency has not identified any uncertainties in federal or state income taxes for any open tax years as of June 30, 2013. The Agency is no longer subject to federal and state tax examinations by tax authorities for years before 2010. No authorities have commenced income tax examinations as of June 30, 2013.

**FLINT HILLS AREA TRANSPORTATION AGENCY, INC.**  
 Manhattan, Kansas  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2013

**Note 1: Significant Accounting Policies (Continued)**

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Subsequent Events**

Management has evaluated subsequent events through January 21, 2014, which is also the date on which the financial statements were issued.

**Note 2: Cash and Cash Equivalents**

At June 30, 2013, the carrying amount of the Agency's cash and cash equivalents was composed of \$220,914 in depository banking accounts and \$466 held in petty cash. The bank balance of the amounts held on deposit was \$232,064 and was entirely secured by FDIC insurance coverage.

**Note 3: Grants**

Grants from various organizations and governmental entities account for approximately 80% of the Agency's revenues for the year ended June 30, 2013. The individual sources thereof were as follows:

<u>Grantor</u>	<u>Purpose</u>	<u>2013</u>
Kansas Department of Transportation	Operations	\$ 729,188
Kansas Department of Transportation	Capital purchases	1,795,879
Others	Operations	20,000
<b>Total Grants Received</b>		<b>\$ 2,545,067</b>

**Note 4: Service Contracts**

Service contracts from various organizations and governmental entities account for approximately 16% of the Agency's revenues for the year ended June 30, 2013. The individual sources thereof were as follows:

<u>Organization</u>	<u>2013</u>
Kansas State University	\$ 277,552
Riley County, Kansas	114,865
City of Manhattan, Kansas	53,510
Geary County, Kansas	52,084
Pottawatomie County, Kansas	1,911
Others	27,601
	<b>\$ 527,523</b>

**Notes to Financial Statements**

**FLINT HILLS AREA TRANSPORTATION AGENCY, INC.**  
 Manhattan, Kansas  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2013

**Notes to Financial Statements**

**Note 5: Capital Assets**

Changes in capital assets for the year ended June 30, 2013 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Unrestricted				
Equipment and furniture	\$ 1,239	\$ 10,855	\$ -	\$ 12,094
IT Equipment and software	2,000	-	-	2,000
Vehicles and related equipment	95,960	5,196	-	101,156
Building and maintenance equipment	375	-	-	375
Accumulated depreciation	(47,421)	(17,013)	-	(64,434)
<b>Total Unrestricted</b>	<u>\$ 52,153</u>	<u>\$ (962)</u>	<u>\$ -</u>	<u>\$ 51,191</u>
Restricted capital assets				
Vehicle equipment	\$ 50,329	\$ 11,171	\$ -	\$ 61,500
Vehicles	745,385	38,644	-	784,029
Bus stops and signs	11,171	-	-	11,171
Construction in progress	79,861	1,816,840	-	1,896,701
Accumulated depreciation	(279,726)	(151,154)	-	(430,880)
<b>Total Restricted Capital Assets</b>	<u>\$ 607,020</u>	<u>\$ 1,715,501</u>	<u>\$ -</u>	<u>\$ 2,322,521</u>
<b>Total Net Capital Assets</b>	<u>\$ 659,173</u>	<u>\$ 1,714,539</u>	<u>\$ -</u>	<u>\$ 2,373,712</u>

The composition of the ending net capital assets by asset class is as follows:

	<u>Balance at June, 30, 2013</u>
Unrestricted	
Equipment and furniture	\$ 4,541
IT Equipment and software	-
Vehicles and related equipment	46,325
Building and maintenance equipment	325
<b>Total Unrestricted</b>	<u>\$ 51,191</u>
Restricted capital assets	
Vehicle equipment	\$ 42,630
Vehicles	372,019
Bus stops and signs	11,171
Construction in progress	1,896,701
<b>Total Restricted Capital Assets</b>	<u>\$ 2,322,521</u>
<b>Total Net Capital Assets</b>	<u>\$ 2,373,712</u>

For the year ended June 30, 2013, property and equipment additions consisted primarily of building construction and furnishing costs which have been capitalized as construction in progress. There were no disposals for the year ended June 30, 2013.

**FLINT HILLS AREA TRANSPORTATION AGENCY, INC.**  
Manhattan, Kansas  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2013

**Notes to Financial Statements**

**Note 6: Building Project**

On May 28, 2010, the Agency approved the construction of a new facility which is to be used as a centralized location for operations and vehicle maintenance (the Project). The total cost of the Project is budgeted at \$2,000,000 and is financed in whole by a federal transit capital investment grant awarded by the U.S. Department of Transportation and passed through the Kansas Department of Transportation (KDOT).

The terms of the grant agreement call for the Agency to pay for the costs of construction directly and submit requests for reimbursement of qualifying costs to KDOT. As of June 30, 2013, the Agency had incurred \$686,925 of qualifying costs related to the Project which had yet to be reimbursed by KDOT and this amount represents 84% of the balance of all grants receivable.

The Agency completed construction and officially dedicated the new facility on September 9, 2013. Final project costs, inception through completion, were under budget at \$1,999,713 with \$161,296 of costs incurred after June 30, 2013.

**Note 7: Other Financing Sources**

In order to supplement operational cash flows during the construction of the new building facility, the Agency (1) opened a \$50,000 line of credit with Kansas State Bank which accrues interest at 5.5%, (2) issued a \$50,000 note payable to the City of Manhattan, Kansas due on July 1, 2013 with interest to accrue at 5.0%, and (3) issued a \$50,000 note payable to Riley County, Kansas due on September 30, 2013 with no interest due thereon.

These financing sources have been separately reported on the statement of net assets. Total interest costs incurred on these financing sources for the year ended June 30, 2013 is \$1,241.

**Note 8: Release of Restricted Net Assets**

The composition of net assets released from restriction for the year ended June 30, 2013 is as follows:

Change in operating assets and liabilities restricted for building costs	\$ (68,050)
Grant revenues restricted for building costs	(1,795,879)
Capitalized building costs	1,866,655
Depreciation expense on restricted capital assets	(151,154)
<b>Net assets released from restriction</b>	<u><u>\$ (148,428)</u></u>

FLINT HILLS AREA TRANSPORTATION AGENCY, INC.

Manhattan, Kansas

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

Notes to Financial Statements

**Note 9: Change in Accounting Principles and Effect on Net Assets**

Effective July 1, 2012, the Agency began using generally accepted accounting principles and financial reporting provisions as prescribed by the Financial Accounting Standards Board. The Agency believes this change provides a more meaningful presentation of its financial position since, for each year presented, (1) the assets, liabilities, and net assets of the Agency are presented from an economic resources perspective and (2) a statement of the changes in cash flows is presented showing the sources and uses of cash and cash equivalents.

To conform with the new financial reporting provisions, the beginning balances of net assets have been adjusted so as to recognize certain operating assets and liabilities as of July 1, 2012 as follows:

	Unrestricted Net Assets	Temporarily Restricted Net Assets
Grants receivable	\$ 175,045	\$ -
Service contracts receivable	8,256	-
Rider fees receivable	4,298	-
Inventory	4,698	-
Accounts payable	(54,294)	-
Construction in progress	-	11,972
<b>Tentative Adjustment to Net Assets</b>	<b>\$ 138,003</b>	<b>\$ 11,972</b>
Reclassification for capital asset restrictions	(1,024)	1,024
<b>Final Adjustment to Net Assets</b>	<b>\$ 136,979</b>	<b>\$ 12,996</b>
Net assets as previously reported - modified cash basis	149,681	595,048
<b>Net Assets As Currently Reported - Accrual Basis</b>	<b>\$ 286,660</b>	<b>\$ 608,044</b>

## **SUPPLEMENTARY INFORMATION**



January 21, 2014

Board of Directors  
Flint Hills Area Transportation Agency, Inc.  
Manhattan, Kansas

**Independent Auditor's Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statement  
Performed in Accordance With Government Auditing Standards**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Flint Hills Area Transportation Agency, Inc. (the Agency) which comprise the statement of financial position as of June 30, 2013 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 21, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of Agency's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

*Independent Auditor's Report*



January 21, 2014  
Flint Hills Area Transportation Agency, Inc.  
(Continued)

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Vannoy & Associates, CPAs, LLC*  
Certified Public Accountants

# *Independent Auditor's Report*



January 21, 2014

Board of Directors  
Flint Hills Area Transportation Agency, Inc.  
Manhattan, Kansas

**Independent Auditor's Report on Compliance for Each  
Major Program and on Internal Control Over  
Compliance Required by OMB Circular A-133**

**Report on Compliance for Each Major Federal Program**

We have audited the compliance of the Flint Hills Area Transportation Agency, Inc. (the Agency) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended June 30, 2013. The Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Agency's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

*Independent Auditor's Report*

### **Report on Internal Control Over Compliance**

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. According, this report is not suitable for any other purpose.

*Varney & Associates, CPAs, LLC*

Certified Public Accountants

**FLINT HILLS AREA TRANSPORTATION AGENCY, INC.**  
 Manhattan, Kansas  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 For the Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Pass-Through		Expenditures
	Federal CFDA Number	Entity Identifying Number	
<b>U.S. Department of Transportation</b>			
Passed through Kansas Department of Transportation			
Formula grant for other than urbanized areas	20.509		\$ 571,321
Federal transit capital improvement grant (ARRA)	20.500		1,830,654
Job access and reverse commute program	20.516		<u>53,395</u>
<b>TOTAL FEDERAL EXPENDITURES</b>			<u><u>\$ 2,455,370</u></u>

**Note 1: Basis of Presentation**

The information in this schedule is presented on the modified cash basis of accounting which is different from the accrual basis of accounting used for the presentation of the Agency's financial statements. Expenditures reported on this schedule reflect the federal portion of qualifying grant costs, whether paid in cash or expected to be paid in cash in the near term. Depreciation expense has been excluded from the expenditure amounts reported herein.

Due to the differences in the basis of presentation, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the Agency's financial statements.

**Note 2: Other Expenditures**

The Agency did not receive any Federal awards in the form of noncash assistance, insurance, loans or loan guarantees and incurred no expenditures in relation thereof for the year ended June 30, 2013.

**FLINT HILLS AREA TRANSPORTATION AGENCY, INC.**  
Manhattan, Kansas  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2013

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
Material weaknesses identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None
Reportable conditions identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None

**Federal Awards**

Internal controls over major programs:		
Material weaknesses identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Reportable conditions identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None reported

Type of auditor's report issued on compliance for major programs:	Unqualified
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Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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Identification of major programs:

<u>Name of Federal program</u>	<u>CFDA Number</u>
Federal transit capital improvement grant (ARRA)	20.500

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
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Auditee qualified as a low-risk auditee?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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**Section II - Financial Statement Findings**

No matters were reported

**Section III - Federal Award Findings and Questioned Costs**

There were no current year findings or questioned costs.

**FLINT HILLS AREA TRANSPORTATION AGENCY, INC.**  
Manhattan, Kansas  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2013

There are no prior period audit findings.